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## Ten Reasons Why Congress Should Support Passage of the Central America Free Trade Agreement

Today, the Senate Finance Committee is conducting a “mock” markup of the implementing legislation for the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). Below are 10 reasons why Congress should support passage of this agreement. For more detailed analysis of DR-CAFTA, see the April 5, 2005, RPC paper “*United States-Dominican Republic-Central American Free Trade Agreement Is a Win-Win.*”

### *For the U.S. Economy*

- ❖ **Creates and protects jobs.** As President Bush said, “CAFTA is a practical, pro-jobs piece of legislation.”<sup>1</sup> Reflective of this is the fact that 13,557 (or 87 percent) of current U.S. exporters to the DR-CAFTA countries are small- and medium-sized firms (with fewer than 500 employees) and account for some 37 percent of total U.S. exports to the DR-CAFTA countries.<sup>2</sup> DR-CAFTA will also open the Central American economies to the export of U.S. services. The services sector accounts for 8 of 10 of all newly created jobs in the United States. Even Stuart E. Eizenstat, President Clinton’s former senior Treasury and trade official, has written in the *Wall Street Journal* that the “agreement is deeply in our national interest and will create, not destroy, jobs.”<sup>3</sup>
- ❖ **Dramatically reduces Central American tariffs and barriers to U.S. exporters.** DR-CAFTA levels the playing field with our southern neighbors by providing reciprocal access for U.S. businesses to the markets of Central America and the Dominican Republic. Due to trade preference programs currently in place, 80 percent of all Central American goods currently enter the United States duty-free, while the average tariff imposed on U.S. exports to Central America is between 7 and 9 percent.<sup>4</sup> Some tariffs on many farm goods are as high as 16 percent.<sup>5</sup> These high tariffs hurt America’s ability to export to and compete in the growing markets of the Dominican Republic and Central America. Upon enactment of DR-

<sup>1</sup> Remarks by President George W. Bush during his Weekly Radio Address, June 4, 2005.

<sup>2</sup> Business Coalition for U.S.-Central America Trade, “There Are 15,625 Excellent Reasons Why Congress Should Support DR-CAFTA,” June 1, 2005.

<sup>3</sup> Stuart E. Eizenstat, “Trade Wins,” *Wall Street Journal*, March 8, 2005.

<sup>4</sup> Chris Padilla, “DR-CAFTA: A Vote for Freedom, Democracy, Reform,” *Textile News*, February 28, 2005.

<sup>5</sup> Office of the U.S. Trade Representative (USTR), “DR-CAFTA Facts: CAFTA Levels the Playing Field,” February 2005.

CAFTA, 80 percent of U.S. consumer and industrial goods exports are immediately duty-free, with the remaining 20 percent becoming duty-free over 10 years.

- ❖ **Increases access for U.S. investors and businesses.** DR-CAFTA countries constitute the 12<sup>th</sup> largest market for U.S. exports. As an integrated market, Central America and the Dominican Republic purchased more than \$15.1 billion in U.S. exports in 2003.<sup>6</sup> By tearing down tariff barriers, American workers will be better able to gain access to the 44 million consumers living in the Dominican Republic and Central America. Moreover, the population in this region is expected to grow by almost 20 percent by 2015, thus adding nearly 10 million new consumers to the marketplace.<sup>7</sup>
- ❖ **Benefits all sectors of the U.S. economy.** The benefits of DR-CAFTA will be numerous. A recent study by the University of Michigan estimates that U.S. income would rise by about \$17 billion and Central American income by about \$5 billion. World Bank economists have also analyzed the deal and come up with positive conclusions.<sup>8</sup> In its analysis of DR-CAFTA implementation, the U.S. International Trade Commission (USITC) found that the effect of the agreement would be to reduce the overall U.S. trade deficit by \$756 million.<sup>9</sup> The American Farm Bureau Federation (AFBF), a national organization representing U.S. farmers and ranchers across the country, has stated that the “U.S.-Central American Free Trade Agreement will provide a substantial competitive advantage to U.S. agriculture,” and that the Bush Administration has “opened up promising trade potential for the whole of U.S. agriculture.”<sup>10</sup> It estimates that U.S. agricultural producers will increase their exports by \$900 million as a result of the DR-CAFTA agreement.
- ❖ **Keeps American businesses competitive with China.** As President Bush recently stated, by passing DR-CAFTA, “we would create incentives for factories to stay in Central America and use American materials rather than relocate to Asia where they are more likely to use Asian materials.”<sup>11</sup> The Agreement will provide a chance to unite with customers in the region to better compete against China, especially in apparel and textiles. A senior former Clinton Administration official also agrees that the Agreement would “solidify the United States as the leading supplier of goods and services to Central American and the Dominican Republic at a time when China is making serious inroads as an investor and exporter in the Western Hemisphere.”<sup>12</sup> If Congress fails to pass DR-CAFTA, thousands of apparel production jobs in Central America and the Dominican Republic could be lost as investors move production facilities to China.

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<sup>6</sup> USTR, “Trade Facts: Free Trade with Central America, Summary of the U.S.-Central America Free Trade Agreement,” December 17, 2003.

<sup>7</sup> Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2004 Revision and World Urbanization Prospects: The 2003 Revision*, <http://esa.un.org/unpp>.

<sup>8</sup> *Washington Post* Editorial, “The Center Abandoned,” June 6, 2005.

<sup>9</sup> U.S. International Trade Commission (ITC), “U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects,” August 2004.

<sup>10</sup> Statement by Bob Stallman, President of the American Farm Bureau Federation on the signing of the Central American Free Trade Agreement, May 28, 2004, <http://www.fb.org/news/nr/nr2004/nr0528.html>.

<sup>11</sup> Remarks by President George W. Bush during a Rose Garden Speech on May 12, 2005.

<sup>12</sup> Eizenstat.

## *For U.S. Foreign Policy Interests*

- ❖ **Consolidates democracy in America's backyard.** In the 1970s, every Central American country except Costa Rica and Belize was ruled by military dictators. Lack of democracy and lack of economic opportunity led to communist insurgencies in many parts of the region that were only defeated with the support of the United States.<sup>13</sup> Today, people can freely choose their elected leaders. The DR-CAFTA agreement will serve to consolidate democracy, nurture respect for the rule of law, reduce poverty, and provide incentives for social mobility and fighting crime. DR-CAFTA will reinforce democratic and free-market principles through the Agreement's transparency and anti-corruption provisions.
- ❖ **Provides an avenue for addressing security issues.** Passage of DR-CAFTA is vital to the economic and security interests of both the United States and the DR-CAFTA countries. As USTR has recently noted, U.S. security is connected to development in our neighborhood. Criminal gangs, drug trafficking, and even trafficking-in-persons create dangerous transnational networks. DR-CAFTA offers a way to treat the cause, rather than merely the symptoms, of the problems in our neighborhood and within the nations of Central America.<sup>14</sup> As economies in Central America grow, the incentives for illegal immigration to the United States diminish.
- ❖ **Spurs economic development within each country.** As the president of the Inter-American Development Bank recently noted, DR-CAFTA will be a commitment of "historic proportions" both by the United States and the Central American countries. "Better access for goods and services from the U.S., implementation of an open, rules-based framework for U.S. investment and technology, and strengthened intellectual property rights protection will all serve to enhance these countries' productivity, international competitiveness, and ability to generate growth and employment, the two most important factors for poverty reduction."<sup>15</sup> Moreover, as the Democratic Leadership Council has recently noted in its advocacy of the Agreement, Central American clothing factories now employ about half a million people.<sup>16</sup> "With the recent elimination of global textile trade quotas, large Asian countries — not just China, but Vietnam, India, Indonesia, and others — can easily eclipse the smaller industries of Central America. By broadening the region's duty-free privileges, making them permanent, and providing more help to rural exporters, DR-CAFTA will help keep the six partners competitive, and help them speed up market opening, reform, and diversification into higher-value industries."<sup>17</sup>

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<sup>13</sup> Ed Greser, Progressive Policy Institute Policy Report, "DR-CAFTA: The United States and Central America 10 Years After the Wars," October 2003.

<sup>14</sup> USTR, "CAFTA: Strengthening Freedom, Democracy, and Security."

<sup>15</sup> Enrique Iglesias, President, Inter-American Development Bank, Letter to U.S. Representative Kevin Brady, May 26, 2005.

<sup>16</sup> The Democratic Leadership Council, "Four Reasons to Support CAFTA," *New Dem Dispatch*, June 7, 2005.

<sup>17</sup> The Democratic Leadership Council, June 7, 2005.

## *For the Overall U.S. Trade Agenda*

- ❖ **Reassures trading partners that the U.S. is committed to opening markets globally.** DR-CAFTA is an integral part of the strategy of “competitive liberalization,” first outlined by former U.S. Trade Representative Robert Zoellick.<sup>18</sup> Under this framework, the United States pursues multiple free trade initiatives to build confidence and support for further trade liberalization among domestic constituencies, while simultaneously placing pressure on non-members of free trade agreements to redouble efforts to conclude broader World Trade Organization (WTO) agreements.<sup>19</sup> By proving new rights and leverage for U.S. workers, farmers, and businesses, DR-CAFTA would generate domestic support for progress on the Doha Round and force other nations to negotiate seriously or risk losing markets to foreign competitors. Failure to pass DR-CAFTA would have a chilling effect on the Doha Development Agenda of trade negotiations at the WTO, potentially jeopardizing our most significant opportunities to gain broad access for our agriculture, manufacturing, and services exports.
- ❖ **Encourages the expansion of free trade throughout the Americas.** The passage of DR-CAFTA will demonstrate that the United States recognizes the economic and political benefits of reducing trade and non-trade barriers and integrating more closely with its 34 hemispheric neighbors — thus furthering the Free Trade Agreement of the Americas (FTAA), which began nearly a decade ago. Moreover, as President Bush recently stated, “by transforming our hemisphere into a powerful free trade area, we will promote democratic governance and human rights and economic liberty for everyone.”<sup>20</sup> A failure by Congress to pass DR-CAFTA would be seen by our Central American partners as American disengagement from a strategically important region of the world. Moreover, in light of free trade talks by some South American countries (i.e., Mercosur) with the European Union and by Chile and Brazil with China, a failure to pass DR-CAFTA could place the United States at a competitive disadvantage in our own hemisphere.

## *Summary*

Congress will soon consider whether to pass DR-CAFTA — a great economic package for both the nations of Central America and the United States. This important agreement builds on other recent trade agreements by substantially expanding market access for U.S. exporters of manufactured goods, agriculture products, and services. The Agreement will provide new economic opportunities for American investors and will secure American jobs. Moreover the Agreement will serve to nurture democracy, transparency, and respect for the rule of law, in a region which only decades ago was marked by internal strife.

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<sup>18</sup> Remarks by USTR Robert B. Zoellick, Council of the Americas, May 3, 2004.

<sup>19</sup> USTR, 2005 Trade Policy Agenda.

<sup>20</sup> Remarks by President George W. Bush at swearing-in ceremony of USTR Rob Portman, May 17, 2005.